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INFO RUEHBR/AMEMBASSY BRASILIA PRIORITY 9081
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RUEHQT/AMEMBASSY QUITO PRIORITY 8617
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SUBJECT: WILL COLOMBIA-VENEZUELA TRADE SURVIVE THE RHETORIC?

REF: A. CARACAS 1062
[1](#)B. BOGOTA 1431

[1](#)1. (SBU) SUMMARY. Venezuela's July 28 decision to freeze diplomatic relations with Colombia has put the Colombian business community on edge and complicated bilateral trade discussions. While Colombian exports to Venezuela for the first half of 2009 had remained resilient in the face of an overall export decline, Chavez' decision to restrict imports from Colombia will cause short-term pain. The longer-term trade implications of the latest diplomatic spat are less clear, as Colombian-Venezuelan trade has weathered, and even thrived under, previous adverse situations. Venezuela has the ability to restrict imports from Colombia, but the high degree of interdependence along the border, coupled with the costs of substituting away from Colombia, lead many Colombians to see the latest spat as just another bump on the trade relationship's rocky road. The situation further reinforces the GOC's commitment to diversifying its export markets through the pursuit of free trade agreements. END SUMMARY.

EXPORTS TO VENEZUELA RESILIENT IN FIRST HALF OF 2009

[1](#)2. (U) Colombia's exports to Venezuela through June, 2009 declined by only three percent compared to the same period in [1](#)2008. This contrasts with an 18 percent decline in global Colombian exports and defies (at least for the first six months) predictions of a sharp decrease in bilateral trade for 2009 (Ref B). Carlos Fabian Cepeda, Director of Economic Studies at the Colombian-Venezuelan Chamber of Commerce, noted that the overall composition of Colombian exports to Venezuela is beginning to shift from manufactured items to primary goods, as a result of Venezuela's endogenous growth/import substitution model.

DIPLOMATIC ROW MEANS SHORT-TERM PAIN, LONG-TERM UNCERTAINTY

[1](#)3. (SBU) President Chavez' decision to "freeze" diplomatic relations with Colombia and exact trade-related punishment will certainly cause Colombia problems in the short term. While GOC officials hesitate to estimate the impact on trade of the latest dust-up, Trade Ministry's Director for Economic Integration Alfredo Ramos noted that the bureaucratic steps for Colombian exporters to Venezuela have increased exponentially and that frequent, random border closings and

arbitrary rejection of Colombian goods have become the norm.

¶4. (SBU) Ramos said that the Venezuelan website to apply for preferential exchange rate dollars (Cadivi) no longer offers Colombia on its drop-down menu of import-origin countries. (Note: Venezuelan importers still owe US\$275 million to Colombian exporters, funds that are tied up in the Cadivi bureaucracy. End note.) Venezuela's suspension of cheap gasoline exports to Colombia will certainly affect the border department of Norte de Santander and lead to increased smuggling. The Venezuelan decision to revoke import licenses for 10,000 Colombian vehicles, on the other hand, will have little effect since Colombian carmakers had not tooled up for those orders out of fear of not getting paid.

¶5. (SBU) What these measures mean for the medium and long term is less clear and depends on how willing Chavez is to inflict economic pain on Venezuelans for the sake of making his point to Colombia. According to Cepeda, the border region has a high degree of interdependence and substituting Argentine or Brazilian goods for Colombian ones will introduce higher prices into an already tenuous Venezuelan inflation environment. GOC officials privately hope that, like previous upsets with Venezuela, this one will blow over and some normality can be restored to the trade relationship. Business community leaders acknowledge that their current malaise is not new; it is merely an extension of the fragility of the bilateral relationship over the last several years.

BILATERAL TRADE TALKS STILL GOING NOWHERE, EVEN SLOWER

¶6. (SBU) According to Ramos, GOC trade officials' principal underlying fear over this latest round of bad blood is how much it will delay bilateral talks on an agreement to replace Venezuela's Andean Community (CAN) commitments, which expire in April, 2011. Talks were never moving fast to begin with (Ref B) and are now non-existent. Trade Minister Plata was in Caracas Wednesday, August 19, for an Andean Development Corporation (CAF) event and spent a total of 30 seconds talking with his Venezuelan counterpart, Eduardo Saman.

LATEST SPAT UNDERSCORES NEED TO DIVERSIFY EXPORT MARKETS

¶7. (SBU) Colombia's push to have nine FTAs in place with 45 countries by 2010 is part of its efforts to diversify its export markets. Chavez' latest show of bluster reinforces the need to diversify away from its second largest, (and most erratic) export market. Some in the business community opined that this most recent incident may in fact have a silver lining in that uncertainty over Venezuela will force traditionally cautious and complacent Colombian businesspeople to explore non-traditional export markets more than any free trade agreement could.
Brownfield